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Economics

For Beijing, expansion is not a big deal, it's lots of them

- **China has shown an increasing taste for European luxury brands, such as Shandong Heavy Industry's buyout of the Italian yacht group Ferretti this year**

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China's slowing economy has failed to dent its global ambitions, with an increasingly hungry dragon scouring the globe for higher-value corporate deals, according to new research.

It made 177 outbound acquisitions worth a combined $63.1 billion last year, five times more than in 2005, the study by Mergermarket and Squire Sanders, the law firm, found. Deals are also growing in value, with the planned $15.1 billion takeover of Nexen, the Canadian oil sands explorer, by the state-owned CNOOC set to be China's biggest-ever foreign acquisition, if it goes ahead.

Next month China will release its third-quarter GDP data, with some economists suggesting that growth could fall below the 7.6 per cent it brushed in the second quarter, despite assurances from Beijing that the economy would stabilise in the second half.

Natural resources and energy, the sectors most critical to China's future growth, continue to dominate purchases, accounting for almost one in three M&A targets between 2011 and the year to date. Almost all these buyers are state-owned companies making investments at the behest of the Government.

Mao Tong, a Hong Kong-based partner at Squire Sanders, said: "We are seeing companies becoming more interested in making a strategic play, rather than just adding to their portfolio. These are big deals designed to position them in a global context.

"Even if the Chinese economy slows sharply, I think this will continue for a while. China is still the world's most important manufacturing base, using huge amounts of iron ore, for example."

China is eager to deploy its $3 trillion of foreign exchange reserves, mainly held in dollars, to counter the gradual depreciation of the currency and put its national wealth to good use. Yet the number of private sector deals is also expected to increase as the Government encourages state-owned banks to step up lending to the corporate sector.Britain is the favoured destination for Chinese dealmaking in Western Europe, accounting for a third of deals and two thirds of all outbound investment to the region, thanks to its reputation for transparency and a large number of Russian and Central Asian resources companies, Mr Mao suggested.

China has shown an increasing taste for European luxury brands, such as Shandong Heavy Industry's buyout of the Italian yacht group Ferretti this year. Recent British brands going East include Weetabix, bought by the Shanghai dairy group Bright Food, and the $7.8 billion buyout of Northumbrian Water by Cheung Kong Infrastructure, a Hong Kong group chaired by Li Ka-shing.

The Dragon Index, a quarterly measure of China's overseas direct investment by the private equity firm A Capital, which was released last week, hit an historic high in the second quarter, with ODI said to grow by 67 per cent between April and June on the previous quarter, to $24 billion.

André Loesekrug-Pietri, founder of A Capital, said: "State-owned enterprises remain the dominant force behind China's ODI, with 90 per cent of the total deal value in the second quarter 2012."

European companies accounted for 95 per cent of all non-resources deals in the quarter, the figures suggested. China's share of US deals has slowed this year, owing to the sensitive political climate before the presidential election.